British War Finance During and After the War 1914-1921. Being the Result of Investigations and Materials Collected by a Committee of Section F (Economics and Statistics) of the British Association. Coördinated by A. H. Gibson and edited by A. W. Kirkaldy. (London: Sir Isaac Pitman & Sons. 1921. Pp. vi, 474.)

The British Association for the Advancement of Science has produced in this a book of reference which will remain unsurpassed for many years. It is the sequel or rather the summary of the financial portions of previous compilations on the economics of the war, skilfully edited by Professor Kirkaldy like the preceding volumes, *Credit Industry and the War* (1915), *Labor Finance and the War* (1916), *Industry and Finance* (1917). Except for a concluding chapter of ten pages by Mr. Gibson, the book differs from works on British war finance by Foxwell, Nicholson, Pigou, and Scott in primarily stressing the statistical facts rather than advocating policies. It is expository rather than argumentative.

The range of subjects covered is wide. Public debts, domestic and foreign borrowings, and foreign loans are treated rather fully, down to such details as copies of circulars of war loans. The discussion of taxation leaves much to be desired. The survey of British banking and credit during the war is probably the best that has thus far appeared. The effect of the war on the London security market and on the foreign exchanges is adequately presented. Prices are discussed both from the point of view of the quantity theory of money and from that of the problem of supplies, and an attempt is made to analyze conditions that would affect the future course of prices. The war legislation affecting finance, government aid to banks, and the official financial reports are the subjects of one chapter each, and the appendices of about 64 pages give the text of important legislation and reports not readily available in the original to the average reader. The book also has numerous tables and several good graphs. It would greatly benefit by an analytical table of contents, which would furnish a bird's-eye view of the enormous amount of data presented, and, more seriously still, it completely lacks references to official sources and documents which would be welcomed by students in the years to come.

The author makes the interesting point (page 10) that "the Bank act was suspended only for a very short period of time" and that (page 24) "the holder of a currency note is entitled to obtain on demand payment in gold coin. The public are ignorant of the convertibility of the note into gold." Probably the leading defects of the British handling of the banking situation during the war is the fact that the issue of currency notes was authorized. Instead of having the government print fiat money with very slight gold cover, a primitive

form of war finance, the same advantage might have been obtained had the Bank of England been authorized to issue notes in small denominations, backed by its relatively larger gold cover. The problem of incorporating the currency note account into the Bank of England statement, as recommended by the Committee on the Currency and the Foreign Exchanges, would not have arisen. However, banking traditions seem inflexible. The theory that the Bank of England note should be convertible pound for pound into gold was maintained at the cost of the huge inflation by means of government paper money.

The deflation of the currency notes is proceeding satisfactorily. On February 25, 1922, the currency notes outstanding were about £296,000,000 as compared with a high record of £368,000,000 on December 22, 1920. The author is of the opinion "that the limitation on the issue of currency notes will doubtless for many years tend to maintain high bank rates and that the limitation on the fiduciary portion of the currency note issue will have at times to be temporarily suspended." Financial prophecy is usually dangerous; a London cable to the *New York Evening Post* of February 18 states that the discount rate has been reduced to 4½ per cent as compared with 7 per cent on April 15, 1920, and 5½ per cent on July 21, 1921. Evidently falling prices have freed huge supplies of credit and resulted in the decline of the bank rate.

Probably the most vulnerable part of the recommendations of the Committee on the Currency and the Foreign Exchanges is that referring to the proposed change in the constitution of the Bank of England. As far back as 1891 Viscount Goschen, and more recently (1918) Sir Edward Holden, recommended that the Bank of England note issues be based not exclusively on gold, pound for pound, but that the procedure of the German Reichsbank, and more recently that of the federal reserve bank system, be adopted of issuing bank notes against gold and against commercial bills in some ratio. The official committee rejected the Holden proposal.

It is the belief of many bankers that had the Bank of England notes been issued on such cover, it would have been possible to avoid establishing a moratorium and certainly to avoid issuing government paper money. Incidentally it might be added, that under such a scheme the issue department and the banking department of the Bank of England might be consolidated so that its balance sheet would resemble and its reserve ratio be comparable to that of the other central banks of issue.

In order to make the Bank of England's existing ratio comparable to that of the federal reserve banks, for instance, it is necessary to merge not only the balance sheets of the issue and banking departments, but also to include the Currency Note Account, as was explained

by the reviewer in his *International Finance and Its Reorganization* (pp. 198-201).

Perhaps the most interesting chapter of the book to the American reader is that concerning the foreign loans of Great Britain and its borrowings from the United States. The author remarks (page 19), "Unfortunately, a large part of the British loans made to foreign countries during the recent war will never be recovered. Present indications point not only to loss of interest, but also to loss of capital." The author thus reiterates the remark of Austen Chamberlain that the British Exchequer figured the loans of Great Britain to her Allies at 50 per cent of their face value.

With reference to the borrowings from the United States the author tells us (page 187) "that the entry of the United States of America into the war and the subsequent granting of loans by the United States government to the Allied governments, rendered unnecessary any further deposit of securities as collateral for new loans raised in America by the British government." In other words, had the United States government not made these advances, the British investor would have been called on to surrender additional securities for mobilization, either for sale in the United States or for security on new borrowings from private investors in the United States.

The author quotes (page 188) the reply of the Chancellor of the Exchequer to a parliamentary query in March, 1921, to the effect that there were at that time returned or under notice for return to private investors about £384,000,000 of dollar and other securities, and that there remained free about £65,000,000. A study of the rate of resale to American investors of stocks in the United States Steel Corporation, of the shares of the American Telephone and Telegraph Company and of the New York Central Railroad Company, indicates that there was continuous liquidation until April, 1917, practically none during the period of United States government advances to the Allies, and renewed liquidation after March, 1919, when the "peg" was released. The underlying figures are given in the reviewer's *International Finance and Its Reorganization* (pp. 353-357).

Whatever may be the moral aspects of the issue of the cancellation of the debts of the Allied governments to the United States government, one fact remains clear—investors in Great Britain at least, and perhaps also in France, have a supply of foreign securities which, if mobilized as they were in Great Britain during the war, could be utilized for the payment of interest and amortization on the debt to the United States government. Great Britain's mobilization of foreign securities was a unique experiment in relating private wealth and public debt, or the assets of the population with the liabilities of the nation. France attempted the scheme but, as in other phases of war

finance, showed little aptitude in following the brilliantly successful financial policy of great Britain. To what extent the ineptitude of the French Ministry of Finance, in controlling that part of the 40,000,000,000 francs of foreign investments of the French public outside of Russia and Mexico, will be an effective reason for permitting her to postpone payment of the inter-Allied debt, and for discriminating against England because she is better able to carry out her financial program, is a point for the American Committee on the Funding of the Debt to ponder.

With reference to the field of taxation, it is unfortunate that the author did not amplify his presentation, even at the expense of the treatment on the war loans. The British policy of war taxation stands out in striking distinction to that of her continental allies, by reason of the large percentage of direct taxation as against indirect taxation. Direct taxation is not only politically democratic but financially productive and readily expansible. The present sound financial position of Great Britain and the present plight of her continental allies hinges very largely upon this difference in tax policy. Mr. Gibson, however, falls into an error which was very prevalent in this country also until it was exposed by T. S. Adams from first-hand evidence as treasury adviser on tax matters. Mr. Gibson states that the excess-profits tax added to the prices of goods. This statement implies that the profiteers were soft-hearted and raised prices only because they had to pay taxes. In fact what they did was to charge all the traffic would bear, and when prices began to decline in 1921, even the excess-profits tax was unable to maintain prices at profiteers' levels. The criticism of Mr. Gibson in his concluding chapter (page 401) that "it should have been possible to set a limit to wages and profits, and more or less to conscript industry" reflects his liberal leanings but is in square contradiction with the fact that he cites on page 208, that "the Munitions was a 100 per cent tax on profits over a certain amount and practically failed as a revenue-producing measure. Its enemy was human nature."

Mr. A. H. Gibson is a banker, the Bradford manager of the Anglo-South American Bank and had suggested the raising of war loans by means of day-to-day borrowing, generally associated with the name of Sir Drummond Fraser. His labor in economic science is worthy of emulation by his professional confrères.

ELISHA M. FRIEDMAN.

NEW BOOKS

ANDERSON, B. M. *Artificial stabilization of exchange condemned—outline of a fundamental solution.* The Chase Economic Bulletin, vol. II, no. 1. (New York: The Chase National Bank. 1922. Pp. 53.)